ACP American College of Physicians℠
INTERNAL MEDICINE | *Doctors for Adults*

Reforming Physician Payments to Achieve Greater Value in Health Care Spending

Summary of a Position Paper Approved by the ACP Board of Regents, April 2009

What is the current physician payment system?

Currently, most physicians are paid based on a fee-for-service payment system. In this volume-based system, physicians are reimbursed based on the service performed. The existing fee-for-service system is based on the Resource-Based Relative Value Scale (RBRVS). The RBRVS determines how much money physicians should be paid for specific procedures. RBRVS assigns a geographically adjusted relative value for each procedure (based on the typical complexity of the physician work, the costs incurred by practices, and the costs of malpractice insurance involved in each procedure), which is multiplied by a yearly-updated dollar multiplier, called a conversion factor, to determine the amount of payment. Under this system, services that are determined to have more physician work and practice expenses are paid more than services with less work and expense, and the more services a physician bills, the more he or she is reimbursed. This is a simplified version of how the government uses this methodology to determine Medicare payments:

Relative values (for work, practice expense, and liability) X geographic adjustment (to reflect regional differences in the costs of delivering services) X dollar conversion factor = amount of payment per service*

> *For Medicare, the conversion factor is established and updated each year based on a measure of inflation in physicians' practice expenses, *reduced by a formula that compares spending on physician services to growth in the U.S. economy.* This formula, called the Sustainable Growth Rate (SGR), has caused annual scheduled cuts in payments to physicians, each and every year since 2002. In most years, Congress has stepped in to enact short-term fixes to stop the next scheduled cut, without fixing the formula that caused the cut in the first place. This continued instability in Medicare payments is a major concern of physicians and is contributing to access problems for patients.

Why does the current system need to be reformed?

The current fee-for-service payment system creates incentives for physicians to provide more services, not necessarily the services that are most effective for a particular patient. In addition, the fee-for-service system involves substantial inequities in how payment rates are determined, which has contributed to a decline in interest in internal medicine and other primary care specialties. The dysfunctional system also lacks incentives to facilitate coordination among the different health care professionals in the health care system. The system rewards episodic, acute care by individual physicians, rather than coordinated, comprehensive, longitudinal care provided by physicians working in collaboration with other health care professionals.

Comprehensive reform of the payment system must involve improvements to physician payments and changes to improve coordination of care across providers. Both are urgent and essential to meeting patient needs and maintaining a sustainable health care system.

Key Findings and Recommendations from the Paper

ACP recommends the following:

- New payment models that align incentives with appropriate, high-quality, efficient, coordinated and patient-centered care need to be designed, tested and evaluated. Models shown to be most effective need to be rapidly expanded.
- A two-component process to test innovative payment reform models that will result in better value for health care spending in the U.S.
    - Develop, test and evaluate innovative payment models that align incentives with quality, effective and efficient care instead of paying on the basis of the volume of services.
    - Improve the current fee-for-service payment system
- The Patient Centered Medical Home (PCMH) testing should be expanded, while facilitating steps that optimize the ability to learn from these tests and rapidly extend the model as appropriate. The PCMH is a team-based model of care led by a personal physician who provides continuous and coordinated care throughout a patient's lifetime to maximize health outcomes.
- Specific elements that should be included and tested in innovative payment reform models in order to determine their ability to replace the current volume-based payment system. Elements include:
    - Payment models that support specific policy objectives to ensure accuracy, predictability, and the appropriate valuation of physician services
    - Increase the value to the health care system
    - Support patient-centered care and patient engagement in shared decision making
    - Align incentives across the health care system
- Changes in the payment system that would generate increased interest in the practice of primary care specialties and provide a better environment for physicians to respond to patient needs.
- Improve the RBRVS and the process by which Medicare physician fee schedule payments are annually updated.
- Reduce administrative requirements in order to support an improved payment environment.
- Repeal the Medicare SGR and create a timetable for physicians to transition to new payment models aligned with the value of care provided to patients.

For More Information

This issue brief is a summary of *Reforming Physician Payments to Achieve Greater Value in Health Care Spending*. The full paper is available at http://www.acponline.org/advocacy/where_we_stand/policy/reforming_pp.pdf.